Quiet Dillard's storms the Southwest

Stores prepare for Christmas surge

Chain Store Age

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SECTION ONE

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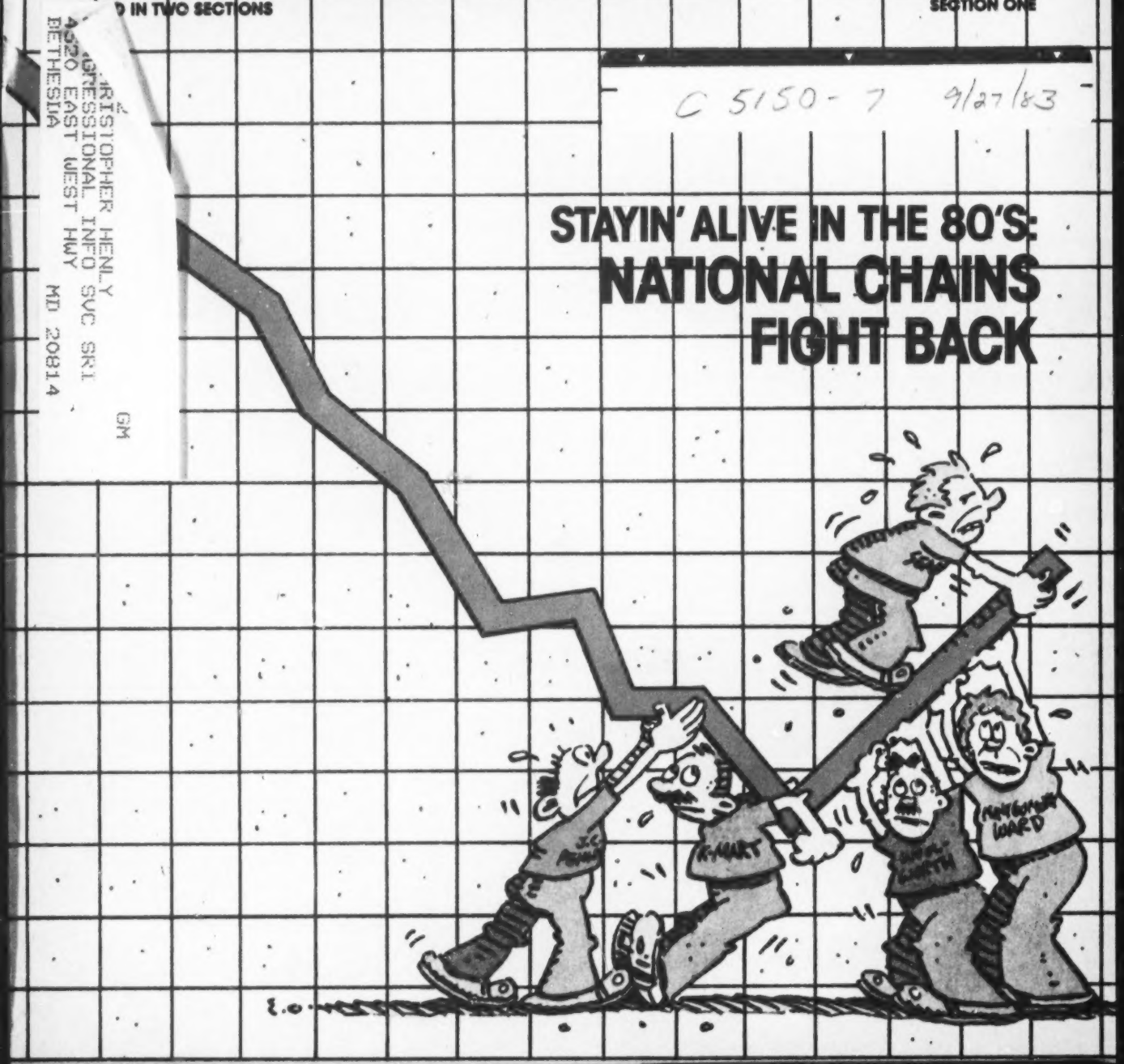
GM

STAYIN' ALIVE IN THE 80'S: NATIONAL CHAINS FIGHT BACK



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K mart's back and looking brighter

After a three-year search for a formula to recapture its former level of productivity, the chain has found its answer: slash expenses, strengthen existing stores instead of expanding and upgrade the merchandise mix. 33

T.G. & Y. on the road to recovery

With a new-format Family Center and a functional approach to management, this once ailing chain is on the mend: Sales for its reformatted stores are already more than 30% ahead of 1982, and the five-year prognosis is rosy 45

Swapping Christmas blues for greens

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Penney stays tuned to in-store auto

Penney's decision to bow out of the automotive aftermarket wasn't a completely final curtain call for the chain. Besides continuing to offer auto lines in its catalogs, Penney apparently feels car sound is "fashionable" enough to rate in-store space.

Stores that have not yet been revamped into Penney's new fashion store mold have relocated car sound in the consumer electronics department adjacent to TVs. The mix is dominated by Sparkomatic, with price points opening at $64.99 and climbing to $179.99.

Penney spokesmen, admitting the chain will maintain its in-store position on car sound, won't comment on remerchandising assortments. But indications are a tradeup is underfoot. Prices in a recent Penney catalog, for example, climb as high as $499.99 for Clarion's 9300TB/800A model, with the mix skewed heavily toward the higher-end $200-$300 price range.

***Penney is retaining** autosound assortment; is a tradeup in the works?*

Industry sources report this is the direction the market is taking. While unit sales are expected to increase by less than 10% this year, the consumer's interest in higher-priced lines should send dollar volume way above that figure.

Sales surge seen for auto chemicals

Overall growth of automotive chemical sales is expected to continue along its moderate 9.2% annual course for the next five years. But two categories aimed primarily at older cars should chalk up strong double-digit gains every year through 1987.

Repair products, like touch-up paints, undercoating compounds, adhesives and filling compounds, will lead all automotive chemicals with an annual growth rate of 14.3%, according to Charles H. Kline & Co., a New Jersey-based marketing firm. Total volume for the category is expected to nearly double, from $128 million last year to about $250 million in 1987.

Dollar volume growth for automotive chemicals
(Manufacturers' sales for seven categories in $ millions)

	1982	1987 (est.)	% change
Total	$1,556.0	$2,415.0	+55.2
Windshield products	42.0	62.0	+47.6
Underhood products	92.0	146.0	+58.7
Repair products	128.0	250.0	+95.3
Additive products	184.0	283.0	+53.8
Appearance products	225.0	394.0	+75.1
Petroleum products, functional fluids	389.0	496.0	+45.8
Radiator products	496.0	713.0	+43.8

Source: Charles H. Kline & Co.

Appearance products, mainly waxes, polishes and vinyl cleaners, are also predicted to post double-digit sales gains, 11.9% annually, with volume reaching $394 million in 1987.

More mature lines, like windshield washers, antifreeze and functional fluids, will post strong dollar gains, but growth will be somewhat slower.

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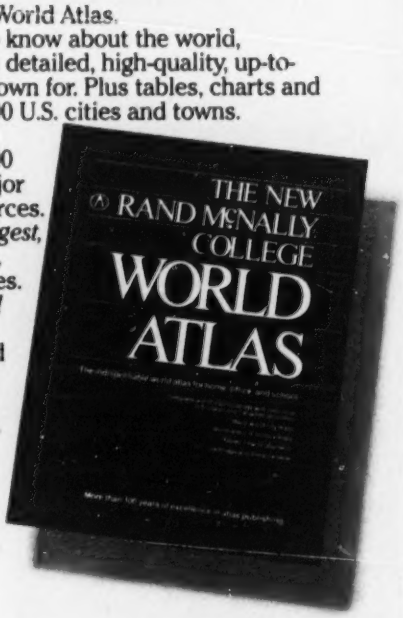

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National chains hit comeback trail

In 1978, 64.4% of the total retail sales of the top 15 chains, and 23.5% of the total GAF (general merchandise, apparel and furniture) sales came from five companies—Sears, K mart, J. C. Penney, Montgomery Ward and Woolworth.

Five years later their sales contribution dwindled to $6.08 of every $10 of the top 15 chains' volumes, and $2.17 for every $10 of the GAF total.

The downward trend appears to have reached the low point of the trough. New leadership has changed the working cultures at the national chains. New marketing and merchandising initiatives, combined with a consumer-led economic recovery—particularly in the heavily chain-stored Midwest—have produced substantial sales gains.

With their vast customer bases, the chains need only increase transactions slightly to produce a snowball effect. Penney would be able to increase sales by $2 billion if it could just raise each customer's annual transaction by $20, says Donald V. Seibert, recently retired chairman.

The bottom line: *Chain Store Age* believes that the five national retailers will regain the commanding role that has been slowly slipping from their mantle. It's taken their top managements a long time to realize it, but finally they've learned that they just can't rest on their laurels. In the past two years the industry has witnessed the rational response of the "Big 5" to the changing retail picture as the national chains unveil new strategies in updated stores.

Their profit performance during the first half of 1983 attests to their comeback. K mart posted the best first-half earnings in its history with a 144% gain.

Woolworth, too, is off to a good start. Having been set free from Woolco's shackles, it posted a $17 million profit vs. a $2 million loss in the first half. Sears is headed toward its best year ever. Profits rose 54.7% in the second quarter and 76.3% during the first half.

Even Ward showed plus earnings for April through June with profits of $4 million against a $27 million loss in '82. It marked the second out of the last three quarters that the national catalog chain was in the black. *CSA* predicts Ward's upward swing will continue through the remainder of this year, ringing in a full-year profit for the first time since 1979.

Rx for recovery: reorganize the top, realign the mix, boost purchases per shopper

Penney, on the other hand, is still troubled by low sales resulting in small profit gains for the first six months of fiscal 1983. Overall first-half earnings crept ahead by a meager 0.9%. Nonetheless, Penney's strategy appears to be right, and *CSA* expects to see a steady incline beginning by early fall.

Back in the mid-1970's, the Big 5 national retailers were plagued by steadfast, starchy managements. "We were rolling along, generating a lot of sales, and profits looked good," says K mart's chairman, Bernard Fauber. "I don't think there are many companies that make major changes under those circumstances."

K mart, like the other four mass merchants, watched idly from the sidelines as department stores evolved into middle- and upper-end fashion houses and as specialty retailers and upscale discount stores carved out niches in the Big 5's business. The Big 5 remained merchants, not marketers.

Five-year sales as a per cent of GAF

Year	GAF*	Sears	K mart	Penney[1]	Ward	Woolworth[1]	Five-company total
1978	$205.719	8.4%	5.7%	4.8%	2.4%	2.1%	23.5%
1979	223.617	7.5	5.7	4.6	2.3	2.2	22.3
1980	237.665	7.1	6.0	4.6	2.3	2.1	22.1
1981	259.440	7.0	6.4	4.4	2.2	2.0	21.9
1982	265.660	7.1	6.3	4.3	2.1	1.9	21.7

*In billions; includes all sales from stores that specialize in department store-type merchandise.
[1]Continuing operations only
Source: CSA research

When the economic crunch of the late 70's caused interest rates to soar and consumers to curb spending, further worsening the Big 5's financial plight, the chains began a struggle to maintain and sometimes find identities. They had been reacting instead of acting. For instance, while the country went on a name brand craze, Sears, Ward and K mart stuck by their private label strategies in hard and soft lines.

It was obvious that the five national merchants needed to overhaul their companies from the inside out if they planned on remaining viable retail forces. They needed to act, not react.

And act they did, becoming marketers and developing five independent rational responses to the biting competition. While each plan was different, tailored for the individual company's specific goals, all responses had three common threads: a reorganization of management, realignment of merchandise assortments and an ultimate goal of increasing the number of purchases each shopper makes.

For the most part, the reorganization forced many old-timers to enter early retirement, allowing young blood to pulsate through the atrophied corporations. While Sears, K mart and Penney relied on insiders for new directions, Woolworth and Ward scouted talent from boid and successful merchants like Dayton Hudson.

New top managements brought new cultures to the stagnant companies. They admitted to and dealt with past mistakes and were more receptive to change and experimentation. Moreover, they let this open-minded attitude filter down through the ranks, encouraging the review of every nook and cranny.

At Sears, merchandising chairman/ceo Edward A. Brennan says, "We challenged each buyer to literally lift up his or her line and examine it. If it needed fixing, fix it. If it couldn't be fixed, discontinue it."

As a result of the introspection, the Big 5 realized that they couldn't be all things to all people; they needed to stand for something. They attacked this problem by realigning assortments and improving their companies' images through merchandise and fresh advertising campaigns.

No longer burdened by ailing Woolco, Woolworth management focused its energies on the long-ignored variety stores. Like G. C. Murphy, it decided to concentrate on its core departments—toys, health and beauty aids, candy, stationery, notions and hosiery—while downplaying jewelry, women's wear and hardware.

However, equally as important as the merchandise is Woolworth's pricing strategy. Variety store president/ceo John Parker says, "We will be strong in the opening of the most popular price ranges of a category of merchandise."

Additionally, the company moved to a race track configuration that helps boutique departments within the stores. For the first time in its 104 years of operation, Woolworth needed specialists for in-store displays, so it created a visual presentation department.

Penney, like Woolworth, also keyed in on its strengths. In Penney's case, the focus was on soft lines. By dropping major appliances, paints and hardwares, and automotives, Penney changed its mix from 60% soft goods/40% hard to a 75/25 ratio.

Its most notable soft lines upgrade debuted late this summer—Halston III, a women's wear collection designed by Halston exclusively for Penney. The Halston name will be extended into all apparel and soft home areas by 1984. It is aimed at gaining consumer recognition for Penney as a fashion merchant, as well as giving the New York-based retailer the edge over the other two catalog chains when it comes to competition with department stores.

Ward, too, had major surgery, cutting away private label lines in favor of brand names that would boost its quality image. This was Phase I of its Impac program.

The exception to the knife was made in cases where Ward's private label had a following, such as in car tires. In these instances, the company layered on the leading brand to attract additional purchases while maintaining its current customer base.

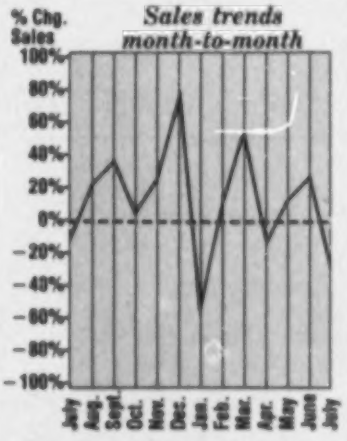
Currently, Ward is embarking on Impac II, which when complete will have all departments correctly sized with proper adjacencies. This will be achieved by verticalization of the departments, merchandising them as specialty businesses. There will be seven worlds in total, starting with automotives, followed by the home store, consumer electronics and major appliances, and finishing with leisure (which includes toys, sporting goods, party shop and lawn and garden), home improvement and apparel.

Sears and K mart are also busily repackaging their stores. Sears emphasizes "dominance" within each department, while K mart layers on better merchandise in new upbeat presentations. □

The hotter it got, the more they bought

Despite a stronger-than-expected economic recovery, retail observers were mildly surprised when GMers reported hefty July sales increases. A solid consumer turnout in June and unusually hot July weather were expected to put a slight damper on sales. Not so; sales for the 25 chains tracked by *CSA* were up 11.5% as the nation's major full-line retailers continued to show strength in big ticket durables.

K mart, for example, posted an 11.8% hike (same-store sales were up 10.1%) from $1.2 billion in 1982 to nearly $1.4 billion. "The July results," K mart chairman Bernard Fauber said in a prepared statement, "supported the current pattern of healthy sales even following the strong movement of seasonal merchandise in June."



Composite of sales trends (increases or decreases) from month to month for the 25 retail companies tracked by *CSA*.

Major appliances have been a leading category in this year's GM recovery, and July was no exception.

Sears' sales were up 9.8% (company officials were hoping for a 10% hike, a spokesman said) as major appliances posted strong increases for the 10th consecutive month. The big ticket durables boom also continued at Montgomery Ward as the Chicago-based retailer reported major appliance sales increases for the eighth consecutive month. Ward's sales were up 6.2% in July and 7.7% after eliminating discontinued lines from the year-to-year comparisons.

The big ticket durables comeback, however, didn't do much for J. C. Penney (the New York-based retailer last year dumped major appliances and hardware). Penney's July sales, in fact, were down 0.6%, but were up 2.2% excluding the chain's discontinued lines. According to Penney topsiders, the chain's sales were negatively affected by 3% because of the Mexican peso devaluation and disruptions caused by store refurbishing projects.

Among other retailers, Wal-Mart logged a hefty 17% same-store sales increase in July. The Bentonville, Ark.-based discounter's total July sales were up 43% from $258 million to $369 million.

July sales: no vacation from recovery

MAJOR CHAINS	% change	JULY SALES* 1983	JULY SALES* 1982	STORES 1983	STORES 1982	6-MO. SALES* 1983	6-MO. SALES* 1982	% change
SEARS[1]	+ 9.8	1,645,402	1,498,381	821	847	10,022,576	9,322,476	+ 7.5
PENNEY	− 0.6	675,680	680,000	2,027	2,071	4,482,000	4,361,000	+ 2.8
WARD[1]	+ 6.2	423,916	398,980	375	388	2,615,318	2,520,721	+ 3.8
FEDERATED[2]	+12.2	420,700	374,800	N/A	N/A	3,075,700	2,695,000	+14.1
DAYTON HUDSON	+20.7	413,260	342,387	1,044	915	2,839,392	2,304,429	+23.2
MAY DEPT. STORES	+13.7	247,300	217,600	1,514	1,346	1,760,000	1,530,000	+15.0
R. H. MACY	+12.3	204,400	182,000	92	92	1,589,500	1,340,700	+18.6
ALLIED STORES	+12.2	205,900	183,500	350	521	1,560,800	1,355,600	+15.1
CARTER HAWLEY HALE	+19.5	215,800	180,600	1,048	976	1,492,700	1,287,500	+15.9
ASSOCIATED DRY GOODS	+20.3	217,400	180,700	N/A	N/A	1,516,000	1,315,000	+15.3
MERCANTILE	+ 9.1	113,155	103,689	86	84	672,109	587,724	+14.4
K MART	+11.8	1,372,477	1,227,879	2,136	2,084	8,614,720	7,753,337	+11.1
WOOLWORTH	+ 6.7	370,659	347,244	N/A	N/A	2,406,259	2,295,367	+ 4.8
WAL-MART	+43.0	369,000	258,000	398	506	1,951,000	1,454,000	+34.2
HOUSEHOLD MERCH.[3,5]	− 6.5	224,415	239,938	3,710	3,810	1,319,104	1,374,840	− 4.1
T.G. & Y.	−10.5	149,775	167,386	845	927	908,074	953,208	− 4.7
ZAYRE[4]	+16.0	147,443	127,141	686	599	1,092,246	915,138	+19.4
BRADLEES	+24.7	67,100	53,800	112	95	444,200	337,700	+31.5
MURPHY	+ 7.9	59,573	55,194	411	427	392,035	389,251	+ 0.7
ROSE'S	+36.3	57,741	42,369	239	237	357,206	293,944	+21.5
HECK'S	+ 9.8	31,500	28,700	121	119	220,200	195,100	+12.9
JAMESWAY	+29.7	28,569	22,033	76	67	178,759	143,099	+24.9
MELVILLE	+15.2	277,848	241,107	5,604	5,320	1,879,872	1,589,561	+18.3
TANDY	+ 8.6	179,682	165,467	N/A	N/A	1,155,986	974,274	+18.7
EDISON BROS.	+16.6	73,128	62,698	2,166	2,129	539,627	488,850	+10.4
THE GAP	+ 8.7	27,400	25,200	554	534	178,900	170,400	+ 5.0
TOTALS & AVERAGES	+11.5	8,070,248	7,239,487			52,356,209	46,995,011	+11.4

**000 omitted. N.C. = no change. N/A = not available.*
[1]Store number for full-line outlets only. [2]Includes 2,822 franchise stores (vs. 2,836 a year ago). [3]Includes T.G. & Y. sales. [4]Includes 269 Zayre stores (vs. 266 a year ago), 316 Hit or Miss stores (vs. 258) and 101 T. J. Maxx stores (vs. 75). [5]Excludes supermarket sales.

Ward posts second-quarter profit

Spurred by a robust economy, cost-cutting measures and new merchandising programs, Chicago-based Montgomery Ward logged a $4 million second-quarter profit. The improving Mobile Corp. subsidiary lost $27 million during the same period in 1982.

For the first half of 1983, Ward lost $15 million compared with a $71 million loss in 1982. In first-quarter 1983 the retailer lost $19 million compared with a $44 million loss last year. Ward officials have said they expect to show a profit for the year; if so, it would be the first yearly profit since 1979.

Sales for the second quarter were up 4.5% to $1.4 billion, while sales for the half were also up 4.5%, to $2.5 billion.